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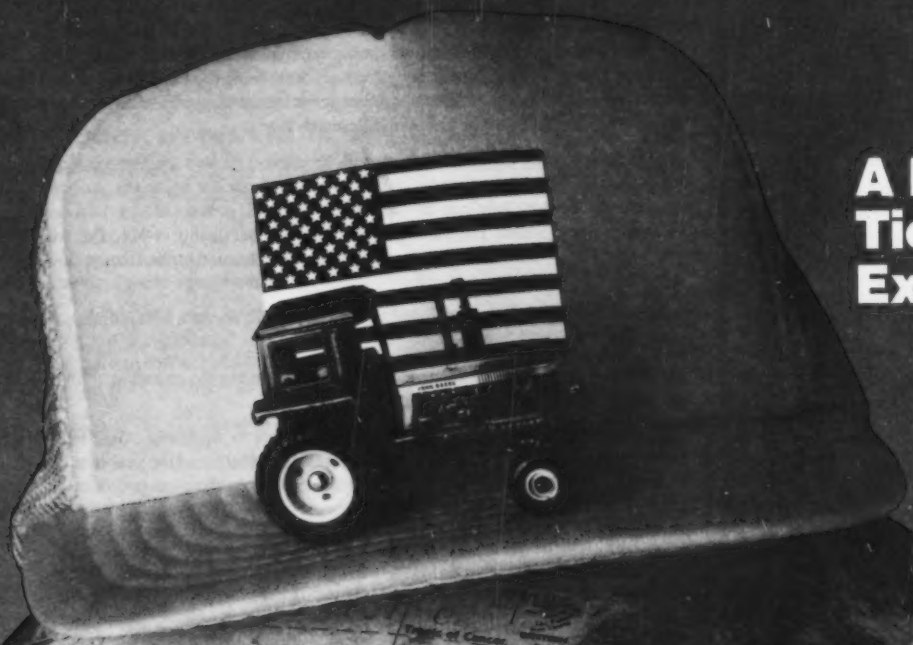

A Future Tied to Exports

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PERSPECTIVES

THE NEW COTTON PROGRAM, which takes effect August 1, is complicated, but the major objectives are straightforward: to make U.S. prices competitive in international markets and to support the income of cotton growers during the transition to a more market-oriented economy. How will this be accomplished? By effectively weakening the basic loan rate as a price floor, freezing target prices for 1986/87, and then lowering the targets gradually, according to USDA economist Sam Evans of the Economic Research Service.

One unique feature of the 1985 farm bill, Evans says, is that it allows cotton producers to repay their loans at a lower level if the adjusted world price is below the announced loan rate. For example, the 1986/87 loan rate for the base quality U.S. cotton (SLM 1-1/16-inch) at an average location is 55¢ a pound. The loan repayment rate for that quality is 44¢. This would allow U.S. prices to follow world market prices more closely and minimize the amount of cotton stored under the loan program.

After 1986/87, loan rates will be figured by equations. For 1987-90, the loan rate will be the smaller of:

- 85% of the weighted average spot market price during the preceding 5 marketing years, excluding the high and low years; or
- 90% of the average of the five lowest price quotes for Middling 1-3/32-inch cotton, c.i.f. northern Europe, during the 15-week period beginning July 1 of the year in which the loan is to be announced. The average is to be adjusted downward by the average difference during April 15-October 15 between the northern European prices and U.S. spot market prices of the base U.S. quality.

The loan rate for the 1987-90 crops may not be reduced more than 5% from the rate for the preceding crop, and the minimum loan rate is 50¢ per pound.

As far as loan repayments: If the world price of cotton (as determined by the Secretary and adjusted for U.S. quality and location) is below the loan rate, the Secretary must implement one of the following two plans:

- Plan A: Producers are permitted to repay loans at a level determined and announced at the same time the loan rate for the crop is announced. The repayment level cannot be less than 80% of the loan rate and, once announced, cannot be changed during the season. This plan was selected for the 1986 crop.
- Plan B: Under this plan, the minimum loan repayment rate for the 1987-90 crops would be the prevailing world price. Under certain conditions, the loan repayment rate may be set above the prevailing world price,but may be no more than 80% of the loan rate.

If the selected plan fails to make U.S. cotton fully competitive in world markets, and the world price is below the loan repayment rate, negotiable marketing certificates must be issued. Certificates will be issued to first handlers of cotton and will be valued so as to make cotton available at competitive prices. The value of each certificate is based on the difference between the loan repayment level and the world cotton price. The certificates are redeemable only for cotton.

Target prices for upland cotton under the Agriculture and Food Act of 1981 and subsequent legislation rose from 71¢ a pound in 1982 to 81¢ in 1984 and 1985. In contrast, the 1985 act allows for a total reduction of 10% in the target price from 1986 to 1990. The target price for 1986 is 81¢ a pound; minimum target prices for 1987-90 are 79.4¢, 77¢, 74.5¢, and 72.9¢, respectively.

The deficiency payment rate is figured the same way as in the past. It's the difference between the target price and the loan rate or the difference between the target price and the national average market price, whichever is higher.

For each year during 1986-90, there is a limit of $50,000 per person on the sum of deficiency and diversion payments from all program crops, including in-kind and certificate payments. However, loan deficiency payments, equal to the difference between the loan rate and the loan repayment rate, do not count against the $50,000 limit.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
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How can lower loan rates help U.S. farmers compete for export markets if our competitors continue to subsidize their own producers? The answer: Lower loan rates should help discourage these subsidies. Economist Keith Collins explains the goals and the risks of the farm bill strategy to recapture our competitive edge.

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Americans eat more than a dozen different types of beans, but they don't eat as many as they used to. The main reasons for the decline in bean consumption are rising disposable incomes and changing lifestyles. Economist Neilson C. Conklin takes a look at the industry.

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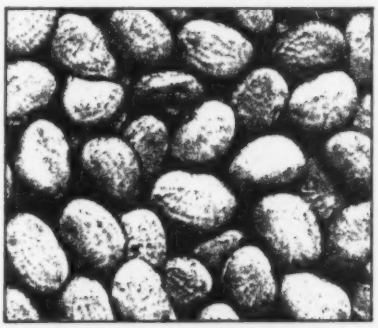


A Future Tied to Exports

What does the future hold for U.S. agriculture? The answer depends, in large part, on how much and how fast export markets expand, according to the following article, which is adapted from a speech by senior economist Clark Edwards of USDA's Economic Research Service. For the last 2 years, Edwards directed a wide-ranging economic research project on the productive capacity of U.S. agriculture and the prospective demand for that capacity to the year 2000. In comments below, he discusses the potential for renewed growth in exports, as well as the pitfalls of dependence on foreign markets. He also offers a brief historical perspective on U.S. agricultural trade in the accompanying sidebar box.

The volume of U.S. agricultural exports increased an average of 8 percent per year during the 1970's. So far during the 1980's, export volume has declined in each consecutive year, and USDA trade analysts forecast another drop this year.

But the forecasts also seem to say that the worst may soon be over.

The foreign exchange value of the dollar has been dropping against many major currencies, and our commodity prices are closer to market-clearing levels. Farmers' production costs are stabilizing, and rates of return on investment in agriculture are recovering from reduced levels for many farm enterprises.

The longrun trend in export growth over the past three decades averaged about 3 percent per year. If we can manage to get back on that track—and it appears that we can—agriculture's recovery will be hastened.

Prospective growth in the physical capacity of the U.S. farm sector seems adequate in coming years to meet domestic demand growth, plus export growth of about 3 percent per year, even if farmers are faced with moderately declining real (inflation-adjusted) prices for their products. Of course, this assumes that efforts will continue to conserve and develop our natural resources, discover new technologies, promote efficient regional relocations of production, and provide the necessary farm inputs.

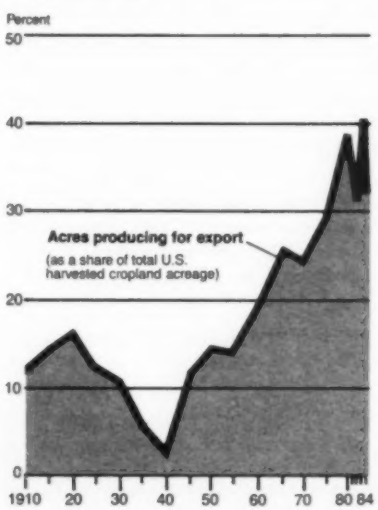
Temporary strains are anticipated in the future—as we have seen them in the past—but these need not lead to prolonged periods of either surplus or shortage.

Income shifts will continue to occur within the farm sector, as well as among farmers, input suppliers, post-harvest handlers, domestic consumers, and foreign trading partners. The income shifts will favor first one group, then another. Policies for the late 1980's and beyond need to be flexible if we want to avoid windfall gains to some groups and severe losses to others—and if we want to be able to deal with economic reversals as they arise. Again, with these goals in mind, we need to find ways to share the farmer's risk, while at the same time maintaining agriculture's resilience.

Risks Versus Benefits

The recovery of lost export markets would, however, make agriculture more dependent on foreign markets than it already is and make it more vulnerable to future price swings of foreign origin. By the year 2000, around half of U.S. harvested cropland could be producing for export markets, up from an average of 36 percent in the last 5 years. The livestock sector could also become more involved in exports, reducing its insulation from foreign market swings.

More Than One Cropland Acre in Three Is Now Producing for the Export Market



Given the risks implicit in dependence on volatile world demand, why would we welcome a resumption in export growth? Perhaps because the alternatives are less appealing.

One alternative is to have a much smaller agriculture limited to expansion in domestic markets. These markets grow about 1 percent per year. With resource productivity increases that have been averaging about 1.9 percent per year, this would imply a steadily shrinking agriculture. Each year, less land, less labor, less capital, and fewer farms would be needed to stay in line with domestic demand growth.

The potential for demand growth outside the United States is much greater. World population is expected to double before the middle of the next century, and the food will have to come from somewhere.

The United States has the capacity to supply a share of these needs. An increase in exports to the longrun trend of 3 percent per year would double our exports in less than three decades and provide a basis for growth sufficient to absorb the likely increases in agricultural capacity.

During the last population doubling, food supplies more than doubled, and the world trend in relative food prices was slightly, if erratically, downward. We can expect this again with the next doubling. Real prices of food products in world markets will probably decline moderately over the next three decades. This reflects the moderate-growth demand scenario as well as the interaction of cost-reducing technologies and the historical tendency of farmers to increase their output until price falls below unit cost.

Production increases can be expected even if prices received for farm products fall moderately further relative to prices paid for production inputs. After all, farmers are used to that. The parity ratio is now about half what it was 70 years ago, yet agriculture has

been able to increase its efficiency, expand, and prosper in intervening years. With prospects for continued technological and structural changes in agriculture, the sector can continue to adapt and grow despite lower real prices received by farmers—assuming that the markets, particularly the export markets, expand sufficiently.

A Bumpy Road

The size of markets for U.S. exports depends on the growth in world population, gains in per capita world income and wealth, changes in world food production, factors affecting the international monetary system and international debt, the price competitiveness of U.S. products, and the vagaries of foreign government policies with respect to food imports and exports.

A resurgence in export demand could result from a change in one or more of these factors: an acceleration in world population or income, a setback in the expansion of world food production, a less expensive dollar, and government policies and institutional arrangements undertaken either by the United States or by others that boost exports through changes in support programs, monetary policy, tax laws, quotas, embargoes, subsidies, promotions, or aid.

Several of these factors have worked against U.S. farmers so far during the 1980's, but prospects are for improvement in coming years.

However, even if the situation does improve and we seem to be getting back on the 3-percent trend for export growth, we have no reason to expect the future to be one of stable and steady growth. The past has been bumpy—except for the unusual stability of the 1950's and 1960's when farmers

were protected by massive and expensive price and income support programs. The future can be expected to be bumpy, too.

Farmers have the flexibility and resiliency to make most of the adjustments needed to cope with future changes; however, when volatility becomes extreme, farmers may need protective intervention by government.

An export-oriented agriculture is not consistent with long-term programs designed to protect a depressed agriculture in a closed and isolated society. Instead, it requires programs to cushion an efficient and growing agriculture which is linked to volatile world markets in an open and international economy. □

Exports: A Changing History

During World War I, an increase in exports expanded U.S. agricultural production and improved incomes. By the early 1920's, nearly 1 harvested cropland acre out of every 5 was producing for export. Most of the exports were for nonfood uses—cotton, tobacco, tallow, and hides.

During the 1920's and 1930's, these markets closed, and agriculture became depressed. By the end of the 1930's, the United States exported almost no agricultural products.

Following the buildup for World War II, exports grew steadily until, by the 1960's, 1 acre in 5 was again producing for foreign markets. The mix had shifted away from industrial uses to food, mostly wheat. The expansion was supported by food aid programs but was slowed by massive U.S. farm price and income support programs, which stabilized domestic prices at levels generally above world prices.

During the 1970's, U.S. exports became competitive because our prices were close to world market levels and the dollar had become relatively less expensive. A growing world population with increasing income per capita was coupled with slowed growth in world food supplies. In addition, some countries, such as the USSR, decided to upgrade diets by importing more feed crops to support their livestock sectors.

Subsequent growth, which averaged an unsustainable 8 percent per year for the decade, shifted the export commodity emphasis to cash markets for livestock feed, especially corn and soybeans. This was a pleasant period for agriculture because it was characterized by expanding output and increasing prices received by U.S. farmers. Concern was even expressed that we couldn't keep up that pace of growth for long; that we might reach the limits of our agricultural capacity.

The end came not from an internal limit to capacity, but from a downturn in export sales. Worldwide depression hit countries that imported from us. Others reduced imports because of large debts at high interest rates; they no longer had the foreign exchange needed to purchase imports. At the same time, the growth in world food supplies accelerated, and the value of the dollar climbed in international currency markets, making U.S. products relatively more expensive for importers. The quantities shipped by the United States fell and prices declined. Total export receipts have dropped sharply since 1980.

Farmers are accustomed to uncertainty in weather, prices, and institutional arrangements in their economic environment. However, the greatest volatility during the 1970's and early 1980's was the result of fluctuations in the export markets on which farmers had grown very dependent.

U.S. agriculture is now solidly linked to the world economy. Through that linkage, social, political, economic, and natural events elsewhere in the world influence domestic farm prices, incomes, and production. The benefits of expanding markets for our farm products are clear, but continued reliance on exports is accompanied by some risks. We have become dependent on volatile export markets.

Can Lower Loan Rates Counter Subsidies, Stimulate Exports?

How can lower loan rates help U.S. agriculture compete for export markets if our competitors continue to subsidize their own producers?

The answer, say many economists, is that lower loan rates will help discourage these subsidies.

To follow their line of reasoning, you have to recognize that U.S. loan rates have an impact far beyond the domestic market. U.S. loan rates set a price floor that can reduce the subsidy burden on many foreign competitors, allowing them to undercut our prices at a relatively low cost—a cost they can afford. In recent years, the price floor provided by our loan rates has been high enough to give even many of the less efficient agricultural producers abroad an incentive to increase production.

The U.S. government was, in effect, accepting part of the cost of these foreign subsidies, according to economist Keith Collins of USDA's Economic Research Service. Foreign governments could subsidize with the assurance that their budget exposure would be limited by U.S. actions. The U.S. government would step into the market, buying up its farmers' surpluses whenever prices fell to loan rates.

The more that foreign production cut into U.S. sales, the greater the surpluses accumulated by the United States. This policy partly shielded foreign producers from the price consequences of their own rising output.

No More Guarantee

So what happens if we continue to lower the "guaranteed" price floor, allowing our prices to adjust to market demand? To the extent that foreign producers have higher costs of production and are less efficient than our farmers—and that is often the case—we can make these subsidies very expensive to our competitors, Collins says.

To maintain the production incentive, foreign subsidies must rise as world market prices fall. Once it becomes evident that the United States won't price itself out of the market—or buy up the world's surpluses to support prices—other producing nations will recognize that they'll have to share the consequences of larger production.

Our policies have partly shielded foreign producers from the price consequences of their own rising output.

The assumption is that many of these subsidies will become so expensive—so unaffordable—that the United States is likely to face less competition for markets in the long run.

This is one of the assumptions implicit in the 1985 farm bill. Although its validity can only be tested with time, there has already been at least one positive response, says Collins. "Canada recently announced substantial reductions from 1985 in the initial prices it will pay its farmers for 1986 wheat and barley. The Canadians could have chosen to keep prices up, but did not."

Another promising sign: recent declines in the value of the U.S. dollar on international currency markets. These declines make it all the more likely that the new price support policies will succeed in stimulating sales of many American commodities. The lower valued dollar makes our exports more competitive and less expensive for foreign buyers whose currencies have appreciated against the dollar. Similarly, it lowers the farm prices facing producers in those competing countries whose currencies have appreciated.

Potential Drawbacks

But there are potential risks to a more aggressive U.S. export policy, especially in the short term, adds Collins. Nations may be tempted to respond by retreating into protectionism or by threatening trade wars. There are also costs to American agriculture in maintaining a competitive edge in a more open world market—costs in terms of resource adjustments, risks of wider price swings, and so on.

In addition, Collins points to the potential for mixed signals that may come from U.S. acreage reduction programs. These programs, he says, have represented an American commitment to eliminate surpluses and raise prices by restricting U.S. production. The future possibility of higher prices and the promise that the United States won't unleash its full production capacity whenever surpluses start rising may weaken efforts to induce our competitors to curtail their own excess production capacity.

The willingness of the United States to continue to pay for acreage reduction programs and for the maintenance of any surplus stocks may bring the issue of foreign subsidies down to the question of "who's got the deepest pockets," says Collins.

Finally, there is uncertainty related to the reaction of importing nations. As a group, these nations have shown considerable growth in self-sufficiency over the last decade. One motive was to protect themselves from sharp, periodic price increases for imported commodities, even though U.S. loan rates provided some price stability to the market. Lower loan rates mean a "greater opportunity for price instability," Collins explains. This may encourage some importing nations to continue their efforts to reduce dependence on world markets.

"We don't know the final outcome of our new, market-oriented farm policies, and I don't expect to see most of our export competitors actually cutting back on production," says Collins. "What I do expect, however, is a slower rate of expansion in foreign production by both importers and major exporters."

In his view, the more competitive stance puts the United States in a position to take advantage of renewed growth in world demand, when it comes. "In essence, our ability to expand production greatly, at low cost, sets us up to be the major beneficiary of future increases in global trade," he contends. □

[Based on information provided by economist Keith Collins of the National Economics Division, Economic Research Service.]

REPORTS IN THE NEWS

All About the Farm Sector

The U.S. farm sector is changing, but not as quickly as some figures suggest. Agricultural census statistics for 1974 and 1982, for example, do show a 143-percent increase in the number of farms with annual sales of $250,000 and up. More than half the increase, however, can be explained solely by inflationary increases in commodity prices over that period.

Similarly, the evidence that farm production is rapidly becoming more and more concentrated among a few very large farms has been exaggerated. The top 10 percent of farms producing corn accounted for 37 percent of production in 1982, down from 42 percent in 1974. Only in orchard crops, vegetables, beef cows, and hogs did the largest farms seem to be gaining market shares.

This report examines farm operator income and wealth, ownership and control, business organization, and concentration of production for different size farms in the mid-1980's. It also discusses changes during the last decade and provides comparative statistical profiles of U.S. farms by sales class, location, and commodity. Among the highlights:

• Half of U.S. farmland in 1982 was owned by individuals, partnerships, or corporations whose primary occupation was farming. Another 14 percent was owned by farm operators whose principal occupation was something other than farming, and the remaining 36 percent of U.S. farmland was owned by nonfarmers. The largest 5 percent of the owners held 53 percent of U.S. farmland.

• Off-farm income is now the primary source of farm sector income, having increased from 43 percent of total income in 1960 to 60 percent in 1983. Off-farm income contributes only a small proportion (4-5 percent) of total operator family income on very large farms, but provides virtually all the family income on small farms.

• More than 1 million U.S. farms — 49 percent of the nation's total — are classified as "rural residences" by the authors. These farms have annual sales of less than $10,000 and, on average, they show negative net farm incomes. Their off-farm incomes, however, averaged more than $20,000 per operator family in 1983. Altogether, these units account for less than 3 percent of U.S. farm production, and the farming activity is frequently an avocation or hobby.

The U.S. Farm Sector in the Mid-1980's *by Donn Reimund, Nora Brooks, and Paul Velde. (Published May 1986; 46 pages; GPO Stock No. 001-019-00441-0; $2.50.)*

All About the Food System

Sales in the U.S. food marketing system reached an estimated half-trillion dollars in 1985, an inflation-adjusted increase of 3.5 percent from 1984.

This report analyzes and assesses the structure, recent developments, and the outlook for the food marketing system, with individual sections on food manufacturing, wholesaling, retailing, and food service. Specific findings include:

• Food industry acquisitions and mergers increased during the 1980's, with such transactions averaging 607 per year, compared with 474 annually during 1975-79.

• The number of U.S. food manufacturing firms continues to decline. There were 40,000 firms in 1947, 20,616 in 1977, and an estimated 16,600 in 1982.

• Supermarkets constituted 14 percent of all grocery stores in 1982 but captured 76 percent of all grocery store sales.

• The share of the food dollar allocated to food prepared and eaten at home fell from 73 percent in 1960 to 58 percent in 1984. The trend of eating outside the home will result in continued employment growth among food and beverage preparation and service occupations. About 2.1 million or 8 percent of the 25.6 million new jobs that the U.S. economy is expected to generate during 1982-95 should occur in food service, according to government projections.

Food Marketing Review, 1985. *(Published March 1986; 53 pages of text and data; GPO Stock No. 001-019-00455-0; $3.00)*

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AGRICULTURAL ROUNDUP

Diminishing Role for Black Farmers

The long-term decline in the number of U.S. farms looks relatively modest compared with the downward slide in farms operated by black Americans.

Between 1920 and 1982, the number of U.S. farms declined by 65 percent. During the same period, the number operated by black farmers dropped 96 percent, from 926,000 to around 33,000.

This diminishing role for blacks in agriculture—from one out of every seven farmers to nearly one out of seventy—shows no signs of letting up, according to USDA demographer Vera Banks of the Economic Research Service.

In fact, Banks and other analysts point to several reasons why the trend will probably continue into the foreseeable future. These reasons include the incidence of poverty among black farm families, the continuing lure of higher income jobs far away from the farm, and the older average age of today's black farmer.

Although there are exceptions, the majority of black farmers do not receive enough farm income to support a family at an acceptable standard of living, according to Banks. In 1982, nearly half the nation's black farmers rang up agricultural product sales of less than $2,500 for the entire year—and that's earnings *before* expenses. Only 20 percent reported annual sales of more than $10,000, compared with 50 percent of farms throughout the country.

Nearly all American families with farms in the lower sales classes depend heavily on off-farm jobs to help pay living expenses. Often, these off-farm jobs provide enough income to support a comfortable standard of living—enough, even, to help capitalize expansion of the farming operation to the point where it can be self-sustaining.

However, that does not appear to be the case for the majority of black farm families.

A trio of other ERS researchers, Robert Hoppe, Herman Bluestone, and Virginia Getz, looked at the larger context in which black farmers operate.

Their conclusions: "Most black farm families have failed to prosper mainly for two reasons. First, they have less education and capital than other farmers. Second, black farmers are concentrated in those rural Southern counties that have not fully shared in the nation's economic growth and development." These conditions make it difficult for low-income black farm families to earn much in agriculture or to find well-paying off-farm jobs in their communities. On average, the Southern black farm family earned $10,600 in off-farm income in 1979, while the typical Southern farm family garnered $16,400 from off-farm employment.

Largely because of these conditions, the children of black farmers have had a strong economic incentive to leave home, once they're able, for higher paying jobs in other areas. The rejection of a future in agriculture by sons and daughters has had a big impact on blacks in farming, affecting not only their number, but also the age of those who remain.

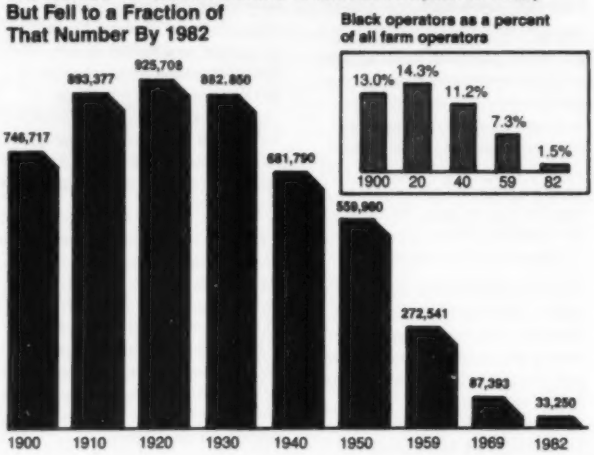
"The average black farmer is about 58 years old, 7 years older than the average white farmer," says Banks.

"Before World War II," she continues, "black farmers were somewhat younger, on average, than white farmers. Since that time, the average age of black farmers has risen because so many young blacks have chosen not to enter the business. The high proportion of older farmers among blacks means that a further substantial decline in their numbers will occur unless many young blacks decide to enter farming."

Is that likely to happen? Banks and her colleagues say it certainly isn't expected to happen anytime soon. It would probably take more than ensuring that black farmers have equal access to credit and extension programs. It might require programs tailored specifically to low-income black farmers, the sizes and types of farms they operate, and the regional pockets of poverty where many of them live.

"The economic outlook for black farmers who depend on off-farm income is relatively bright in certain areas of rapid employment growth," adds economist Robert Hoppe. "On the other hand, in areas like the slow-growing Mississippi Delta, poor farmers, black or white, may have to leave in order to find attractive economic opportunities."

The Number of Black Farmers Exceeded 925,000 in 1920, But Fell to a Fraction of That Number By 1982



Food Bites Deeper into Foreign Budgets

Americans typically spend less for food—as a share of their overall expenditures—than consumers in other nations around the world, according to economists Penny Korb and Harry Harp of USDA's Economic Research Service.

The share is smaller because total

U.S Had Smallest Share of Expenditures for Food in 1982

Country	Total private expenditures	Food expenditures	Food	Food and beverages
	U.S. dollars per person		*Percent*	
Italy	3,731	996	26.7	28.8
West Germany	6,054	1,401	23.2	NA
France	6,248	1,101	17.6	20.1
Australia	6,573	1,108	16.9	22.3
United Kingdom	4,661	708	15.2	17.8
Canada	6,858	1,010	14.7	18.2
United States	8,644	1,050	12.1	14.4

Source: OECD National Accounts 1970-82, Volume II, 1984 edition.

private expenditures in the United States are much larger than in other developed countries, reflecting higher per capita income. In 1982, private per capita expenditures averaged about $3,000 higher in the United States than in the six other developed countries shown on the accompanying table. American spending on food, however, was near the average for these other nations.

Only 14 percent of U.S. consumers' total private expenditures (excluding savings and taxes) went for at-home food and beverages in 1982—the latest year for which comparable developed country data are available. The U.S. share for food alone was 12 percent.

That contrasts with the slightly higher averages in other developed countries and the much higher averages in less developed nations.

(continued on next page)

Gleanings

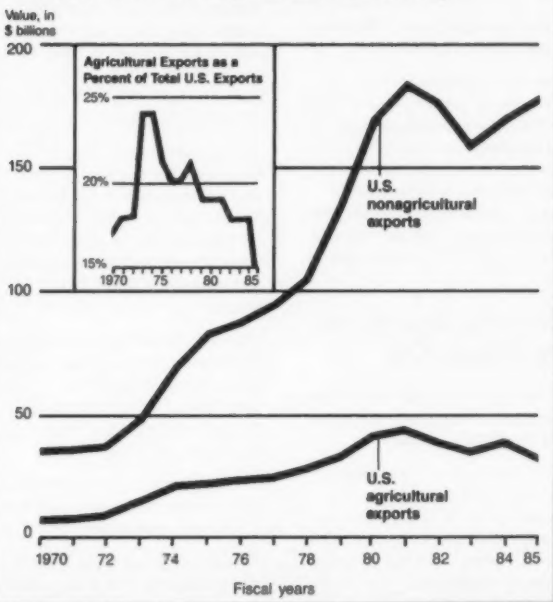
The two world leaders in food production are the United States and China. Each produces around 14%-15% of the world's food, according to analysts of USDA's Economic Research Service. Over the last 3 years, for example, the U.S. grain harvest (wheat, feed grains, and milled rice) averaged 288 million metric tons; China's grain harvest averaged 296 million tons per year. Oilseeds output averaged 58 million tons in the United States and about 30 million tons in China. U.S. red meat and poultry production was about 25 million tons per year on average; China produced roughly 17 million tons.

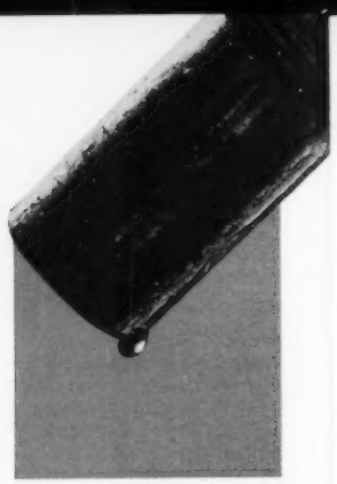
. . . but China has 22% of the world's population to feed, while the United States has only 5%. This leaves American farmers very dependent on foreign markets, yet it makes the United States the world's leading agricultural exporter. The population difference also explains the wide gap in per capita consumption between the two nations. Estimates for 1979-81 indicate that Americans consumed an average of about 1,200 more calories per person per day than the Chinese. The disparity was in "animal" rather than "vegetable" products, notes ERS economist Linda Bailey. Average daily calories from red meat, poultry, fish, dairy products, eggs, and other animal products were estimated at 1,316 for Americans and just 245 for the Chinese.

Nonfarm products seem to be leading the recovery from the overall slump in U.S. exports, reports economist Tom Warden of the Economic Research Service. After declining from a record $185 billion in fiscal 1981 to $159 billion in 1983, the value of U.S. nonagricultural exports increased in each of the last 2 years. U.S. agricultural exports also reached an all-time high in 1981 ($43.8 billion), but value has since dropped to a 7-year low of $31.2 billion. Another decline is expected this year. Sales of farm products brought in only 15% of our total export earnings in fiscal 1985, down from 19% in 1980 and 20%-24% in the mid-1970's.

. . . this doesn't mean that agricultural exports are becoming less important, however, because Warden also points out that farm trade is still a moneymaker for the United States. Last year's agricultural trade balance (exports minus imports) was positive to the tune of $11.4 billion. Although that was the lowest figure in several years, it helped defray a portion of the record $135-billion deficit in imports and exports of nonagricultural goods.

While U.S. Agricultural Exports Remain Depressed, a Recovery in Nonfarm Exports Seems Underway





Canadian consumers, for example, allocated more than 18 percent of their expenditures for food and beverages, with food accounting for almost 15 percent. The shares for British consumers were 17.8 percent for food and beverages and about 15 percent for food. Italy topped the list of seven developed nations studied, with consumers spending 28.8 percent of total private expenditures for food and beverages and 26.7 percent for food.

In most developed nations, note the economists, the percentage of expenditures for food declined between 1972 and 1982, reflecting abundant supplies and rising incomes.

Among the centrally planned economies, consumers in the Soviet Union devoted almost 37 percent of total expenditures to food and beverages, according to 1980 data (the latest available for worldwide comparisons). Food accounted for about 26 percent and alcoholic beverages nearly 10 percent of total expenditures.

In the developing world, the budget share balloons for food.

China's consumers, for instance, allocated an average of 60 percent of their total spending for food, with beverages accounting for another 2 percent. Only consumers in the African nation of Niger spent a larger share—almost 62 percent—of total expenditures for food and about 2 percent for beverages.

Soviets Squeezed by Cheap Oil

Soviet grain harvests are often a harbinger of how much U.S. grain the Soviets will purchase.

If Russian harvests are good, American farmers can usually expect to sell far fewer bushels. If the harvests are not so good, U.S. farmers often enjoy much higher sales to the Soviets.

This rule-of-thumb reasoning may be complicated for the moment, however, by a new factor in U.S.-Soviet trade—the slump in Soviet earnings from oil exports.

That's the view of Economic Research Service analyst Dennis Miller, who recently examined the USSR's falling fortunes and its possible impact on American grain exports.

"Plunging oil prices threaten to significantly reduce the Soviets' hard currency earnings and their ability to sustain imports from the West," says Miller.

"The Soviet Union is the world's largest petroleum producer," he says. "Compared to Saudi Arabia, the Soviets are modest exporters, consuming most of their energy production domestically."

But by 1984, he notes, Soviet energy exports (of oil and natural gas) still had swelled to more than $19 billion—enough, certainly, to affect purchases of foreign goods and grain.

Earnings from exports of petroleum zoomed in the 1970's and early 1980's, rising from $430 million in 1970 to $15.6 billion in 1983. Earnings from natural gas sales increased from roughly $14 million in 1970 to $3.8 billion in 1984.

"These energy sales became the two largest components of hard currency export earnings for the Soviet Union by 1984," Miller says. Oil accounted for 58 percent of Soviet foreign exchange earnings and natural gas an additional 14.5 percent.

"The Soviets took full advantage of the large increases in international prices of petroleum set by OPEC," says Miller. The world price quadrupled in 1973-74, and then doubled in 1978-79.

During the span of the 1970's and early 1980's, U.S. grain sales to the USSR were also soaring.

"The United States sold the Soviets 138.5 million tons of grain valued at $18.3 billion over the 1973-85 period," says Miller. "In 1985, the Soviet Union bought 94 percent of its grain imports from Western countries."

He says "these massive grain purchases were largely financed by Soviet energy exports. And it appears that over the long run the Soviets have tended to allocate a generally constant proportion of their energy export earnings for grain imports."

Now that oil revenues are down, analysts are wondering whether that pattern will continue.

"The Soviets' export earnings could fall by as much as $8 billion in 1986 from 1984 and remain low for an indefinite period," says Miller. "This decline is 29 to 33 percent of the total value of Soviet hard currency imports in 1984, and roughly as much as the Soviet Union has ever paid for grain imports in any one year."

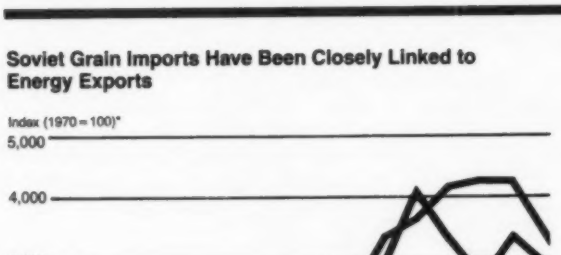
He says the "Soviets first felt this hard currency squeeze in 1985, and it may have been a major reason why the Soviets violated the provisions of their long-term purchase agreement with the United States." Under that accord, the Soviets were obligated to buy 4 million tons of U.S. wheat during 1984-85. Their actual purchases fell short by more than a million tons. He notes that the Soviets did buy a large amount of U.S. corn over the same time period.

Miller speculates that "lower energy earnings could be a reason why Soviet purchases from the United States are expected to drop from $2.5 billion in fiscal 1985 to $1.4 billion this fiscal year."

He adds that some of the loss in oil revenues may be made up by increased Soviet sales of gold.

"The Soviet Union is the world's second largest gold producer," he says. "In 1985, its estimated gold sales reached $3.1 billion, up from $1.3 billion in 1983. Even so, such

Soviet Grain Imports Have Been Closely Linked to Energy Exports



*Based upon value of energy exports and total grain imports (both measured in current U.S. dollars).

increases in gold sales are not enough to cover the likely reduction in petroleum revenues."

In fact, he adds, "selling a lot of gold would probably depress its price."

Nigeria: An Export Market Profile

Africa is often seen as a continent composed of nations in need of food assistance.

That's not the case with Nigeria, however.

As Africa's most populous country, Nigeria may have more mouths to feed—but it also has more money to buy food, thanks to large oil exports. And, despite declines in oil prices, petroleum exports and population growth are expected to continue driving demand for commercial food imports in the future.

"Nigeria has consistently been among the ten largest importers of U.S. grain and is one of the largest oil suppliers to the United States," says Carl Mabbs-Zeno, an analyst with USDA's Economic Research Service. "It's a nation with especially strong prospects for importing U.S. agricultural products."

He isn't predicting that Nigeria will soon match its 1981 peak of $544 million in farm product imports from the United States, though.

The figures have fallen sharply since then, with sales of $313 million in 1985, but Mabbs-Zeno says politics may have played more of a role than any real market loss. Nigeria's military has staged two coups in the last 3 years, changing and confusing farm and food policies.

"With the decline in oil revenues, the political decision was made to curtail imports," he says. "This does not reflect a lack of market demand, since the government acts as the import buyer and thereby controls the market."

Most affected were U.S. exports of corn and rice. American corn exports fell from 279,000 tons in 1982 to 94,000 tons by 1985. Rice dropped from 402,000 tons in 1981 to 50 tons in 1984.

And, in an effort to boost domestic production, Nigeria recently put temporary import bans on many farm goods, such as rice, corn, and poultry.

"The rice ban will have less effect now on the United States because U.S. rice exports to Nigeria have largely been replaced by rice from Thailand," says Mabbs-Zeno.

Not yet affected by the restrictions is wheat, the principal U.S. farm export to Nigeria. But the country's military government has been publicly considering a temporary wheat ban.

Even so, Mabbs-Zeno projects that imports of wheat should grow substantially.

One reason is the "changing food preferences of an increasingly urban population." Urban consumers are developing a taste for wheat bread over locally produced coarse grain meals.

"By 1990, Nigeria may import almost 2.2 million tons of wheat annually, up from 1.5 million tons in 1983," says Mabbs-Zeno. "While the United States has been the major supplier of wheat, new competitors for this market will challenge the U.S. market share."

He also expects corn imports to recover (once the ban is lifted).

"Because imported corn is used entirely for feed, the quantity imported has grown rapidly as higher incomes boosted demand for poultry," Mabbs-Zeno says. "With no specific policy directed toward domestic feed corn production, its growth rate is unlikely to meet the rising demand for poultry feeding."

According to Mabbs-Zeno, "the large population (more than 90 million), an established petroleum industry, and a slowly developing farm sector virtually assure large import demand for many years to come. The tougher question is whether the United States will be able to hold onto its market share."

Since 1976, the United States has provided between 21 and 27 percent of Nigeria's total farm imports. Already some traditional trading patterns are being altered by "recent bilateral agreements with several countries, including France and Brazil."

But Mabbs-Zeno says "the United States and Nigeria should remain major trading partners in agricultural goods, despite considerable yearly variation in commodities and prices."

Leaders

Our Top Customers: Sales Were Down in 22 of 1985's 25 Major Markets for U.S. Agricultural Exports

	Value of U.S. ag exports		Ranking among customers	
	Fiscal 1985	Fiscal 1984	Fiscal 1985	Fiscal 1984
	in $millions			
Japan	5,663	6,935	1	1
USSR	2,509	2,512	2	2
Netherlands[1]	1,927	2,227	3	3
Canada[2]	1,727	1,936	4	5
Mexico	1,566	1,966	5	4
Korea	1,400	1,816	6	6
Taiwan	1,342	1,409	7	7
West Germany	900	1,260	8	8
Spain	826	1,232	9	9
Egypt	766	882	10	10
Venezuela	721	778	11	13
Italy	677	771	12	14
United Kingdom	628	790	13	12
Brazil	557	438	14	21
Portugal	502	702	15	15
Belgium-Lux.[1]	470	836	16	11
Hong Kong	396	407	17	23
France	396	510	18	18
Saudi Arabia	381	497	19	19
Iraq	371	423	20	22
Nigeria	367	345	21	26
Israel	300	351	22	25
Philippines	285	300	23	28
China	239	692	24	16
Colombia	238	220	25	33

[1] Not adjusted for transshipments. [2] Adjusted for transshipments.
Source: Economist Steve MacDonald, International Economics Division, Economic Research Service.

The Business of Beans

Beans and franks, Boston baked beans, black beans and rice, refried beans—Americans eat more than a dozen different types of dry beans. But they don't eat as many as they used to, even though some specialty beans—like garbanzos—have recently become quite popular. The main reasons for the decline in bean consumption: rising disposable incomes and changing lifestyles.

Although dry beans have never been a mainstay of the American diet, people used to eat about 7½ pounds of them a year in the 1960's. Higher incomes and changing consumer tastes and demographic patterns have caused per capita bean consumption to decline by about 20 percent from the early 1960's to an estimated 6 pounds in 1984. The declining trend has probably bottomed out, and consumption should remain stable at about 6 pounds per person for the foreseeable future.

In America, there are big differences in regional tastes for beans. White beans are usually the favorite in the North. In New England, for example, the preference for Boston baked beans moves the navy bean (a white-bean variety) to the top of the list. Black-eyed beans are usually favored in the South, except around New Orleans where red beans are the common fare. And, in the West, the most commonly eaten bean is the pinto.

In spite of the regional favorites, declines in bean consumption have been geographically widespread. According to surveys conducted in 1964 and 1976 by USDA's Human Nutrition Information Service, bean consumption declined all over the country, except in the West. Even there, consumption increased only slightly, perhaps because of the growth of the Hispanic population for whom beans are an important part of the diet. Rising incomes and urbanization contributed to a 43-percent decline in bean use in the South between 1964 and 1976. The same is true for the Northeast and North Central states, where consumption tumbled 43 and 56 percent, respectively. Today, bean consumption is highest in the West and the South.

In spite of the regional favorites, declines in bean consumption have been geographically widespread.

An Alternative Source of Protein

Since beans are a relatively inexpensive source of protein (when compared with meats and fish), it's generally thought that the lowest income households consume the most beans. Surprisingly, USDA data reveal that the poorest households did not use the most beans in 1964 or in 1976. The most likely reason: federal food programs. The very poor usually qualify for food stamps and other forms of federal aid that enable them to upgrade their diets.

Those who used the most beans were households at the upper end of the low-income range. These people may not have been eligible for federal assistance programs and, consequently, they probably relied more heavily on beans as an alternative source of protein.

Still, as incomes rise, bean consumption usually declines. Research on dry bean demand suggests that a 1-percent increase in income will mean a change in bean consumption that could range from a 0.1-percent increase to a 0.4-percent decrease.

Not all the decline in bean consumption is the result of income. The shift toward single-parent homes and the rise of women in the work force, for example, have also affected bean demand. Many bean dishes require extensive preparation, cleaning, and cooking. So, as consumers who have less time to spend in the kitchen shifted to convenience foods, bean popularity declined.

Just as consumers in different areas of the country prefer certain beans, farmers in various regions specialize in growing different classes. Pinto beans, the only exception, are grown in every region.

There are 12 major classes of dry beans: pinto, navy, great northern, red kidney, limas, black turtle-soup beans, cranberry beans, black-eyes, small red beans, pinks, small whites, and garbanzos.

Michigan, best known for its navy or pea beans, is the top producing state. Nebraska, second, accounted for almost 90 percent of great northern bean production. California, another major bean producer, grows a wide variety, including large and baby limas, kidney beans, garbanzos, and black-eyes.

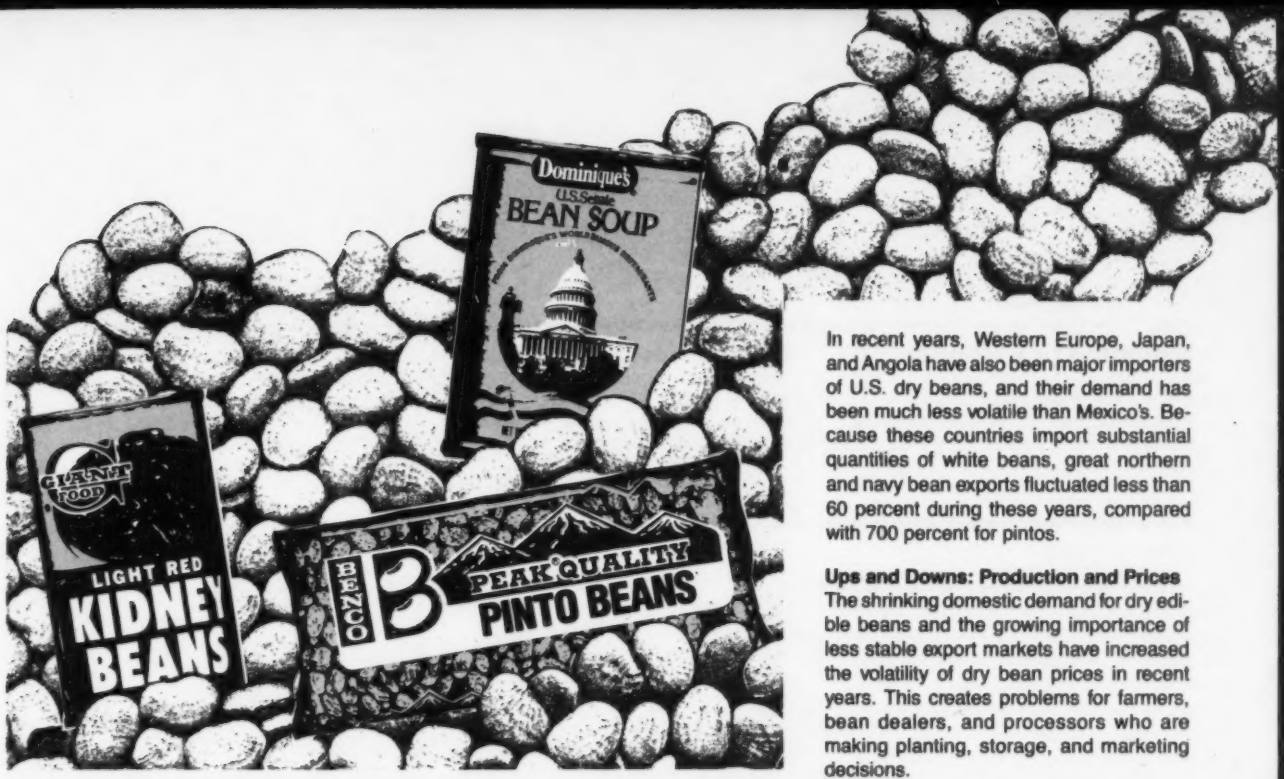
Beans: For Export

But since overall domestic demand for beans has sagged, bean producers have become increasingly dependent on exports.

Although the United States ranks fourth behind India, Brazil, and Mexico in dry bean production, it's the world's largest exporter. Throughout the 1960's and early 1970's, U.S. annual dry bean exports fluctuated between 2 and 4 million cwt. In the late 1970's, with worldwide shortages of protein and grains, exports rose to 4 to 6 million cwt per year. From 1979 to 1982, exports soared by almost 150 percent to 17 million cwt, primarily in response to increased Mexican demand.

Mexico had accorded low priority to dry bean production until it began a self-sufficiency plan for basic crops, including beans, in 1980. Mexico was expected to reduce bean imports during the 2 years the self-sufficiency program was in effect, but the opposite occurred. The Mexican dry bean crop was exceptionally poor in 1979, while demand mounted with high oil prices and rising incomes. For 2 years, Mexican dry bean imports soared. However, by 1983, Mexico had large stocks of beans, the peso and oil prices had declined, and bean imports tumbled.

The unpredictable Mexican demand has not affected all classes of beans in the same way. Pinto beans and black turtle soup beans accounted for most of the export growth in the early 1980's. Pinto exports, alone, rose over 700 percent from 964,000 cwt in 1979 to 8.5 million cwt in 1982. However, in 1983/84, exports fell below 315,000 cwt.



A Glut Avoided

Past farm bills have never been much of a concern to farmers who grow dry edible beans and other nonprogram crops (crops without government price supports). Not so with the latest version of major farm legislation, officially known as the Food Security Act of 1985.

This farm bill, unlike those preceding it, had the potential of directly affecting markets for nonprogram crops. How? By encouraging farmers who grow program crops to switch to alternative, nonprogram crops.

Here's how one provision called 50/92 would have worked: Farmers who grow program crops (wheat, feed grains, cotton, and rice) could have shifted up to half their permitted acreage (base acreage minus the required set aside) to nonprogram crops or conserving use and still have received deficiency payments on 92 percent of their permitted acreage, an attractive offer that could have curbed the surpluses of major crops.

The problem was that the established markets for the most likely alternative crops—minor commodities like dry edible beans, sunflowers, safflowers, and rapeseed—would never have been able to handle dramatically increased production without drastically reduced prices.

Nonprogram crop producers and farm groups voiced their concerns, and Congress responded by amending the 50/92 provision.

As it stands now, program crop producers may still shift up to 50 percent of their acreage to conserving uses while receiving deficiency payments on 92 percent of their acreage. They cannot shift acreage to alternative crops.

The reason that such a shift would have been overwhelming to the dry edible bean industry can easily be illustrated. A shift of only 1 percent of last year's corn acreage would have increased dry bean acreage by 25 percent in 1986. The likely result: sharply lower prices. Even though reduced prices should seem attractive at the supermarket, U.S. consumers wouldn't buy enough additional beans to make up for the excess production. The only hope for the surpluses would have been significantly increased exports, an unlikely situation.

In recent years, Western Europe, Japan, and Angola have also been major importers of U.S. dry beans, and their demand has been much less volatile than Mexico's. Because these countries import substantial quantities of white beans, great northern and navy bean exports fluctuated less than 60 percent during these years, compared with 700 percent for pintos.

Ups and Downs: Production and Prices

The shrinking domestic demand for dry edible beans and the growing importance of less stable export markets have increased the volatility of dry bean prices in recent years. This creates problems for farmers, bean dealers, and processors who are making planting, storage, and marketing decisions.

During the 1960's, dry bean prices remained relatively stable, ranging from $7 to $12 per cwt. A major break came in 1972 when worldwide shortages of protein sources drove dry bean prices to nearly $30 per cwt. Since 1980, prices have ranged from about $14 to $28.

Bean farmers, used to the stable markets and prices of the 1960's and early 1970's, increased production in response to greater exports and rising prices. When the export boom hit in 1979, farmers who were already growing some beans simply expanded their acreage at the expense of wheat, corn, or other crops. As a result, planted acreage of dry beans rose at an annual rate of 20 percent to 2.3 million acres between 1979 and 1981. Production increased from 20.5 million cwt in 1979 to 32.2 million in 1981. The production of colored beans, preferred by the Mexican market, increased the most. Pinto bean output increased nearly 60 percent from 1979 to 1981.

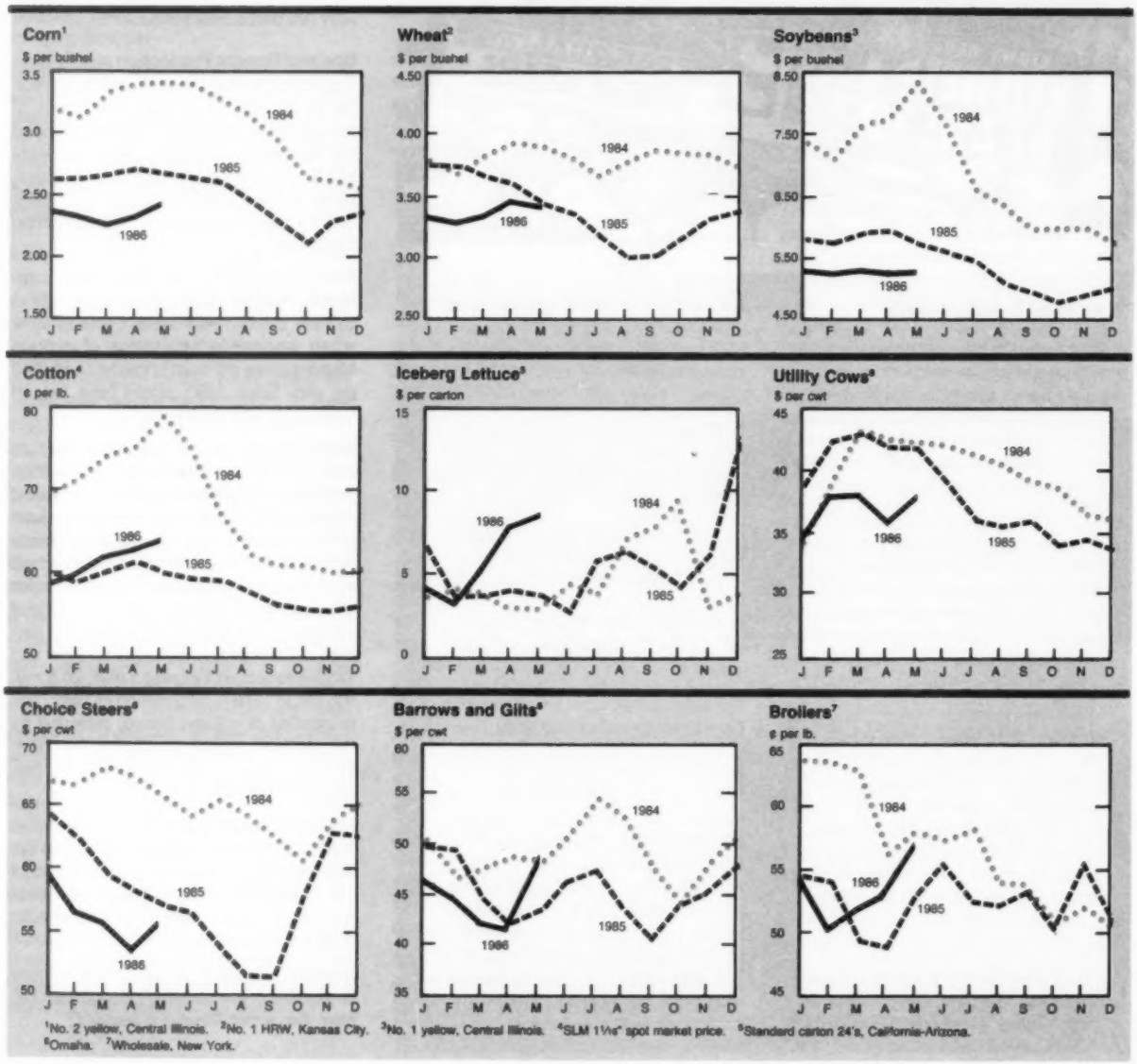
Declining exports and sagging prices in 1981 and 1982 led producers to reduce dry bean acreage from the record levels of 1981. However, farmers still harvested over 1.5 million acres of beans in 1985, with an output of 22.2 million cwt. □

[Written by agricultural economist Neilson C. Conklin of the National Economics Division, Economic Research Service.]

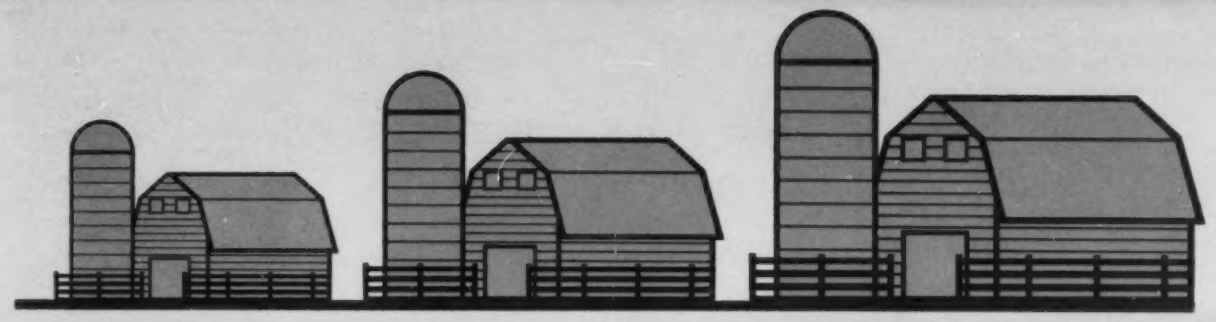
FARMLINE TRENDS

Monthly Price Monitor

USDA's May index of farm prices increased 2.5% but was 4.6% below its year-earlier level. May prices were up from April for all the commodities charted below, except wheat. Corn rose to $2.42 per bushel, the highest since August 1985. Wheat dropped 6¢ to $3.40, but that was still better than the price at the start of the year. Soybean prices inched up to $5.26. Cotton, at 64¢ per lb., was the highest since July 1984. In the meat animals area, utility cow prices increased to $37.83 per cwt; choice steers gained $2 to $55.63; and barrow and gilt prices jumped to $48 from about $41 in April. Broiler prices rose above 56¢ a lb. for the first time since July 1984. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1⅛" spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.



Where Would Your Farm Fit In?

It's the Differences that Stand Out Among These Five Profiles of U.S. Farms by Sales Class

	Value of agricultural sales, 1982				
	Less than $10,000	**$10,000 -$39,999**	**$40,000 -$249,999**	**$250,000 -$499,999**	**$500,000 or more**
Number of farms by sales class	1,175,283	544,401	588,172	62,893	29,802
Per farm averages by sales class					
Farm acreage*	110	327	793	1,807	3,727
Percent of acreage owned by operator*	89	70	58	56	61
Avg. operator age*	52.0	50.8	47.6	48.2	49.9
Value of land and buildings	$113,828	$238,901	$601,491	$1,478,107	$3,290,772
Value of machinery and vehicles	$13,705	$34,723	$90,744	$179,711	$306,053
Total assets	$150,549	$314,426	$811,625	$1,967,473	$4,433,098
Total liabilities	$15,632	$45,455	$165,511	$492,028	$1,537,720
Total equity	$134,917	$268,971	$646,114	$1,475,445	$2,895,378
Yield*					
Corn (bu/acre)	73	91	108	119	122
Wheat (bu/acre)	24	27	33	39	45
Soybeans (bu/acre)	23	27	31	33	32
Cotton (bales/acre)	.51	.55	.83	1.35	1.92
Value of commodity sales	$3,296	$21,622	$100,784	$342,851	$1,558,690
Net farm income[1]	−$1,431	−$349	$15,628	$81,737	$456,779
Off-farm income[1]	$18,755	$16,499	$9,536	$11,231	$17,233
Total income[1]	$17,324	$16,150	$25,164	$92,968	$474,012
Percentages by sales class					
Percent of U.S. farms	49.0	22.7	24.5	2.6	1.2
Percent of all land in farms*	13.0	17.8	46.7	11.4	11.1
Percent of total U.S. sales*					
Grains	2.0	11.2	57.5	17.3	11.9
Cotton	.5	4.1	29.7	19.1	46.5
Vegetables	1.4	3.8	15.1	10.4	69.3
Dairy products	.2	5.0	61.0	14.8	19.1
Poultry	.2	.9	25.9	21.6	51.3
All cattle	5.1	8.9	26.3	10.4	49.3
Hogs	1.9	8.0	52.6	19.9	17.5
All farm products	2.7	8.2	41.5	15.1	32.5
Percent of operators reporting 200 or more days of off-farm work*	51.1	30.2	9.8	6.7	7.7

Sources: 1982 data compiled from ERS' **Economic Indicators of the Farm Sector: National Financial Summary, 1984** and (for items with asterisks) from the 1982 Census of Agriculture.
[1] The returns of many farms are shared by more than one farm household. This is especially true for the larger farms, which are more likely than smaller farms to be organized as partnerships or corporations. Therefore, per farm income averages do not necessarily represent income averages of individual farm households. Because of data limitations, the off-farm income figure is reported for only one farm household per farm (the "farm operator" household).

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